

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2002-778

February 25, 2003

MAINE PUBLIC SERVICE COMPANY
Request for Approval of Affiliated
Interest Transaction (§ 707)
(\$4.0 Million Promissory Note)

ORDER APPROVING
AN INTERCOMPANY
LOAN AGREEMENT

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

On December 13, 2002, Maine Public Service Company (MPS or the Company), in accordance with the requirements of 35-A M.R.S.A. § 707, applied to the Commission for approval to participate in a \$4.0 million intercompany revolving credit agreement with its wholly-owned subsidiary Energy Atlantic, LLC (EA) that will produce a modest reduction in MPS's short-term interest costs. This Order approves the Company's request.

II. ANALYSIS & DECISION

The Company and EA propose to enter into an arrangement in which EA's short-term cash surpluses will be available to offset the short-term cash flow requirements of MPS. This agreement will result in a lower net cost of short-term funds for MPS, as well as higher interest income for EA. If MPS borrowed the full \$4.0 million from EA under the proposed variable interest rate, MPS could save up to \$10,000 in interest expense compared to what it would pay third-party lenders under its existing revolving line of credit.¹ It is not anticipated that any borrowing from EA will be outstanding for a full year; instead, outstanding balances will fluctuate periodically as with any revolving credit agreement.

The variable interest rate formula agreed to by MPS and EA is based on the 3-Month London Inter-Bank Offering Rate (or "LIBOR"), which is a common index used in short-term credit agreements. MPS's existing revolving credit agreement requires a variable interest rate based on the 3-Month LIBOR rate (recently 1.35%) plus a margin of 1.375% (for a total of 2.725%) on outstanding balances plus a commitment fee of 0.25% on amounts that are available to, but not drawn by, MPS. The agreement between MPS and EA requires MPS to pay EA the 3-Month LIBOR rate plus 0.875%, which results in a current rate of 2.225%. Thus the margin MPS must pay has been

¹ This assumes that \$4.0 million is outstanding for a full year based on current interest rates. The Bank of New York is the lead lender on a \$6.0 million revolving line of credit.

reduced by 0.50% from what would be due to third-party lenders. The first 0.25% of this total offsets the additional commitment fee due the third party lenders for unused balances on the existing revolving credit line while the remaining 0.25% represents EA's sharing of some of the benefit it gains by lending MPS funds rather than investing in short-term treasury instruments or certificates of deposit (CDs).

Recently, 3-month treasury bills have yielded 1.1% to 1.2% while 3-month CDs have been offered in the 1.2% to 1.3% range. Therefore, EA will realize an interest income benefit from the transaction. At the same time, MPS gains the flexibility of having an additional \$4.0 million in short-term borrowing capacity in addition to the interest expense savings noted above. Overall then, the proposed transaction benefits both parties.

Having examined the proposed affiliated interest agreement, we find that this arrangement will reduce the borrowing costs of MPS without subjecting it to additional risks. Therefore, we conclude that the proposed arrangement is not adverse to the public interest, and we approve this arrangement, subject to our usual condition that we are not approving the Company's capital structure or capital costs for ratemaking purposes, and that approval of this agreement in no way limits the ability of the Commission to set the rates or charges of the Company.

Accordingly, we

ORDER

1. That Maine Public Service Company is authorized to enter into the intercompany revolving credit agreement with Energy Atlantic, LLC as described in its application;
2. That Maine Public Service Company indicate any outstanding balances under this agreement with Energy Atlantic in its monthly financial statements filed with the Commission; and
3. That a copy of this Order be sent to Maine Public Service Company and this docket be closed.

Dated at Augusta, Maine, this 25th day of February, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.